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SUBJECT: IMPROVING SECURITY AND STRONG ECONOMY BOOST
COLOMBIAN BANKING SECTOR

11. (SBU) SUMMARY: Strong economic growth and record levels of foreign direct investment (FDI) are bolstering Colombian bank balance sheets as well as foreign financial institutions' interest in investing in the sector. Following a period of consolidation, three Colombian-owned banking groups have attained a majority share of the market. Foreign participation, mainly Spanish and U.S., totals approximately 20 percent and is expected to rise as Colombia's security and investment climate continues to improve. Although access to banking services has grown in recent years, Colombians still face challenges in obtaining access to mortgages and small business credit. Increased foreign investment in the banking sector should foster innovation needed to expand credit access for Colombia's growing consumer class. END SUMMARY.

Fewer but Stronger Banks

12. (SBU) Since 1995, Colombia's banking sector has consolidated from 32 institutions to 16, largely as a result of mergers sparked by the economic recession in the late 1990s and early 2000s, and sector analysts expect further consolidation by 2010. Three domestic banking groups (Aval, Bancolombia, and Banco Davivienda) now control 60 percent of Colombia's USD 71 billion in deposits. All three institutions benefited from strong management during the recession and purchased weaker rivals. Since 2005 their 20 percent average return on equity has exceeded most institutions in the region.

13. (U) Colombian billionaire and business mogul Luis Carlos Sarmiento Angulo is the primary shareholder and president of Grupo Aval, which comprises four banking brands (AV Villas, Banco de Bogota, Occidente and Popular) as well as additional holdings in telecommunications and real estate. Sarmiento is widely considered Colombia's richest businessman. Bancolombia is closely linked to the business community in Medellin and Antioquia Department. Medellin-based investment group Suramericana de Inversiones and industrial conglomerate Grupo Argos are the bank's largest shareholders. Bogota-based Banco Davivienda is a subsidiary of Sociedades Bolivar, a financial holding group with 13 companies active in pensions, insurance, leasing, and construction, controlled by Jose Alejandro Cortes Osorio.

14. (U) The sector's consolidation has facilitated the

diversification of the remaining banks' portfolios thereby spreading risk and increasing the number and types of services offered by each bank. The restructuring has increased profitability (up 15 percent in the last year) and spurred a 29 percent jump in lending since 2005. Reflecting this solid performance, the regional business publication America Economia recently ranked Aval as Colombia's second best company based on profitability, management, and efficiency. The growth in Colombia's banking sector occurred while the GOC simultaneously consolidated regulatory oversight into the Financial Superintendency (Superfinanciera) and increased monitoring of the industry.

Growing Foreign Investment

¶5. (SBU) Although total FDI in Colombia has quadrupled since 2002 to an expected USD 8 billion in 2007, foreign banks own only about 20 percent of local banking assets. Most experts expect foreign participation to rise over the next five years due to Colombia's improved security conditions, strong investment climate, and solid economic growth. In December 2005, Spanish bank BBVA purchased local mortgage lender Granahorrar, transforming BBVA into Colombia's fourth largest bank with an 11 percent market share. In 2006 London-based HSBC purchased Colombia's smallest bank, Banco Banistmo, while General Electric's financial arm, GE Money, bought a 39 percent stake in Banco Colpatria for USD 228 million in 2007.

The other major foreign institution in the financial sector, Citibank, has operated in Colombia since 1929 focusing primarily on corporate banking, retirement services, and investment banking.

¶6. (SBU) To compete with BBVA the other existing foreign banks will need to buy a sizable domestic bank. Many local

observers believe GE Money will exercise its five-year option to expand its stake in Banco Colpatria while rumors have circulated that Citibank, which currently has a 3 percent share of the Colombian banking market, seeks to acquire Bancolombia or another local bank. Citibank country director Francisco Aristeguieta told the Ambassador recently his bank's outlook for Colombia is very positive, but highlighted the Colombian export sector's increasing dependence on the frothy Venezuelan economy as a potential concern for the banking industry.

¶7. (U) Meanwhile, Colombian domestic banks' stable footing has made new capital relatively accessible. Bancolombia raised recently \$886 million in subordinated debt and shares, mostly from foreign institutional investors, while Banco Davivienda and Bancoldex both conducted successful international bond issuances of USD 150 million each in 2007. On November 28, Boutique Banco de Credito, 80 percent-owned by a U.S. citizen, is launching a five-day public share offering on the domestic market valued at USD 125 million.

Rising Consumer Demand for Services

¶8. (SBU) Amid robust economic growth (6.8 percent in 2006 and a projected 7 percent in 2007), Colombia's growing consumer class is increasingly demanding access to banking services. According to the national banking association, ASOBANCARIA, only 31.5 percent of Colombians have a bank account. High transaction fees and limited branch networks remain the largest obstacles to increasing the "banked" population. Demand is also growing for consumer finance, credit cards, mortgage lending, and small business credit. However, high interest rates and traditionally restrictive lending practices limit the housing and small and medium enterprise sectors.

¶9. (SBU) Nevertheless, rising consumer demand augurs well for increased partnerships with foreign institutions. As international banks with more experience in products such as mortgages, small business loans, and credit cards gravitate to the Colombian market, they will look to partner with local

banks' existing branch networks and superior customer knowledge. Such partnerships should improve services through greater innovation and help increase access to credit necessary to promote long-term consumer- and private sector-based economic development.

Brownfield